inContact, Inc.
Third Quarter 2014 Earnings Conference Call
November 10, 2014

Operator: Good day, everyone, and welcome to the inContact Third Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later you will have the opportunity to ask questions during a question-and-answer session. You may register to ask a question at any time by pressing star and one on your touchtone phone. You may withdraw yourself from the queue by pressing the pound key. Please note that this call is being recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn the call over to Mr. Greg Ayers, CFO.

Gregory Ayers: Thank you, and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Q3 2014 conference call. I will begin the call with some prepared remarks, and I will then turn the call over to CEO, Paul Jarman, to review our third quarter results. Finally, I will provide additional detail on our financial results for the quarter before opening it up for Q&A. For access to our news release and other information about inContact, please visit our website at www.incontact.com. The purpose of today's call is to provide you with information regarding our third quarter 2014 results.

Some of our discussion and responses to your questions may contain forward-looking statements, which are subject to risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize or should our assumptions prove to be incorrect, actual Company results could differ materially from these forward-looking statements. These risks, uncertainties and assumptions, as well as other information on potential risk factors that could affect our financial results are included in our filings with the SEC, including our most recent report on Form 10-Q, particularly under the heading Risk Factors. During the call, we may offer incremental metrics to provide additional insight into our business or quarterly results. Please be advised this detail may be one time and may or may not be provided in the future.

Now I'll turn the call over to Paul Jarman.

Paul Jarman: Thank you, Greg. Today I'm pleased to share with you record-setting results for inContact during the third quarter. We are accelerating our leadership stake with new record bookings, record software revenues in our core business, as well as record consolidated revenues. Q3 was the strongest quarter in the Company’s history and we achieved record new implementations, improved retention, strong same-store sales and strong expansion among current customers. In Q3 we closed 99 total contracts; 54 with new customers and 45 expansion deals, which represents a 41% year-over-year increase in estimated annual contract value. This is a new record level for bookings in a single quarter.

We continue to win new business against other cloud competitors. This quarter we came out ahead in over 60% of deals. Our 10 years of cloud experience and cloud service expertise sets us apart from the rest. Even more compelling evidence of strength is our track record with current customers. This quarter we saw acceleration of expansion deals as satisfied customers deployed additional products, expanded new locations and turned off additional business units. One example was a Fortune 500 customer who is a leader of residential and commercial technologies. During Q3, they signed an expansion deal to connect 800 additional agents to the existing multi-location, multi-national instance of inContact cloud platform.

I am pleased to announce a new Company record in quarterly software revenue. In Q3, software revenue was 26.3 million, which represents a year-over-year increase of 53%. Part of our long-term success is our ability to create customer stickiness, including retention, expansion and advocacy. We reached a new level of customer retention this quarter, now coming in at over 93% as measured by software revenue retention. In addition, same-store sales increased year-over-year this quarter at 2.8% compared to 2.2% one year ago.

I have mentioned in the past how important implementations and turn ups (ph) are to realize revenue and to enable us to scale as demand increases. In third quarter we achieved a new high mark in implemented annual contract value while at the same time achieving a high level of customer satisfaction with our process. We now have more experience in cloud contact center implementation than anyone and this experience deepens each and every quarter. The results in Q3 are strong evidence that inContact has reached a new level of business maturity and increasing market leadership. We are moving decidedly ahead of cloud and premise software competitors in a new phase of forward momentum. Cloud adoption is taking hold across the majority of industries and the largest companies, even among the more conservative and regulated vertical markets.

We are now riding the growing wave as a proven cloud leader. We now have customers among the top 10 financial companies and the top 10 health insurance providers. We count seven of the top 10 largest states as customers and we are closing expansion deals in state and local governments every quarter. The cloud continues to rapidly disrupt established premise software vendors. Some of those vendors are offering cloud solutions but they are very early stage or single tenant systems. Our 10 years of cloud experience and cloud service expertise sets us apart. inContact is the only cloud player that can support thousands of seats with security, reliability and scalability in a multi-tenant environment.

The next factor driving our momentum is expanding and diversifying our distribution and go-to-market channels. Partners of all types are helping fuel our growth, drive capacity and innovate faster. Our pipeline with carriers and other strategic partners going into Q4 is very strong. We are continuing to add new value-added resellers and in Q3 we'll close the largest deal yet in our VAR channel. Implementation partners are also key to capacity and our ability to scale. Every quarter this year we've increased the number of partners and projects we outsource, which now represent about one-third of new implementations.

Innovation and a vision for where technology can take our customers is another driver of our forward momentum. Over the past 12 months, through both acquisitions and expansion of our domestic and offshore staff, we have grown R&D headcount by 122%. We are also accelerating innovation with our APIs, develop our portal and our Vibrant in-cloud partner ecosystem which has expanded by 60% over the last 12 months. In September, we continued our momentum and workforce optimization market by launching a new all-in-one cloud WFO solution purpose-built for small and mid-size contact centers. Just four months after the acquisition of Uptivity, the new cloud Discover suite takes the award-winning Uptivity WFO solution, uplifts it to the cloud and powers it up with unique, intelligent integration into the inContact universe.

We are currently releasing our second major software update of the year. That includes advanced features for Personal Connection Outbound, new reporting tools for business users and the next wave of automated features and controls for the Workforce-Intelligent Contact Center.

I would like to take a moment to talk about innovation in our service model. This year in response to demand from enterprise customers, we've created a new Services team of highly specialized experts who have deep technical knowledge of our platform. This program has been very successful in addressing the more complex and specialized requests coming from larger organizations. We've seen a significant spike in customer satisfaction among those customers that have this level of service and it's now a permanent cornerstone in our enterprise model. Constant innovation in our cloud software as well as offering more specialized enterprise grade services are key factors in our sustained growth.

Customer engagement is also a distinct advantage for inContact. Our Annual Users Conference in September had the highest attendance in its seven-year history. The event garnered a record 4.8 out of five satisfaction rating among a diverse group of attendees, including contact center managers, technical and operational staff as well as business leaders. Many of our customers enthusiastically shared their experiences and insights including representatives from Columbia Sportswear, the State of Georgia, Konica Minolta, New Balance, Dyson and others. Our ICUC conference illustrates the fact that we do more than just sell software. We help our customers solve problems in a changing world of technology and customer service.

In summary I am pleased with the standout results in the third quarter, the best yet for inContact. We have record SaaS bookings and record new implementations. Total software revenues are up 53% over the last year. We had strong same-store sales, strong revenue retention and excellent expansion among current customers. These results are coming in because we are the proven cloud provider in a rapidly expanding market. We are well ahead of the competition at a perfect time because of our mature multi-tenant cloud software platform while others are only just getting started. We intend to leverage every advantage to lengthen our lead as the cloud market enters the stage of accelerating growth and there is a strong demand for our proven solution among companies of all sizes.

Based on inContact's strong performance during the last two quarters, as well as our confidence in this quarter, today we are increasing our guidance for the remainder of the year. Greg will provide those details. Now I'll turn the time over to him.

Gregory Ayers: Thank you, Paul. We achieved very positive results in Q3, and now I will provide more details about the financials. First, let's look at the Software segment, which includes all recurring revenue related to the delivery of our software applications, associated professional services and for this Q3, a reduced and final amount of minimum purchase commitment revenue from Unify. With the acquisition of Uptivity, this segment also includes a small amount of perpetual software license revenue.

For Q3 2014, I'm happy to report that Software segment revenue increased to 26.3 million, a 53% increase over last year's 17.1 million. Excluding Unify's guaranteed amounts and the contribution from Uptivity, Software revenues grew 39%. That 39% growth is in stark contrast to Q3 2013's 21% growth, providing yet another objective measure of our increasing software revenue growth rate. The three key drivers of our recurring Software revenue are customer retention, existing customer utilization and new contracts. Our Software revenue retention rate for the quarter increased over prior quarters to a rate of over 93%. Remember, we measure retention as a percentage of revenues, not based on the number of customer accounts.

The second driver of quarterly recurring software revenue growth is the variable utilization of software services by existing customers. This metric fluctuates due to seasonality, macroeconomic conditions and customer service activities, as well as the revenue generated from the sale of additional services to existing customers. This measurement is similar in concept to same-store sales as used in the retail industry. It excludes attrition and new customer revenues. For the September quarter, we experienced a 2.8% sequential increase. This is the best performance for variable utilization for Q3 in the past six years, exceeding even the 2.2% recorded in last year's third quarter.

The third and final driver of our Q3 software revenue growth is revenue from new SaaS contracts, that is, contracts not yet included in the same-store sales metric. We closed 99 new contracts in the quarter, 54 of which came from new customers and 45 were upsells to existing accounts. As Paul noted, we set a new record for bookings in a single quarter. We estimate that the expected future value of these contracts will be approximately 41% higher than the estimated value of bookings in Q3 of 2013. A quick reminder on how inContact calculates bookings. Bookings are an estimate of the annual contract value of new SaaS sales. It does not reflect the full value of a multi-year contract, nor does it include estimated network connectivity revenues. This conservative approach to the bookings calculation accurately reflects the true Software revenue run rate that will be added to the business.

In Q3 2014, Software segment gross margin was 54% on a GAAP basis and 70% with non-cash charges added back, compared to 59% and 71%, respectively, in Q3 2013. The decline in GAAP gross margin is principally attributable to higher levels of non-cash amortization related to acquired intangibles.

Our second segment is Network connectivity, which includes all communication services provided to our software customers, as well as to legacy telco clients. Network connectivity segment revenue for Q3 2014 was 17.9 million, an 18.6% increase over the 15.1 million in Q3 of last year. Approximately 86% of the Network connectivity segment revenue is generated by customers using our contact center software. With the exception of accounts sold by telecom-based partners such as Verizon, software prospects typically request that we provide their connectivity services. The September quarter Network connectivity segment gross margin was 37% in 2014 compared to 36% last year. We continue to benefit from leveraging our fixed cost over an expanding customer base. Operating income for the Network connectivity segment grew by 32% in Q3, with the segment's operating margin a robust 27.4%.

Consolidated results for Q3 are as follows: Consolidated revenue increased to 44.2 million, a 37% increase from last year's 32.2 million. Consolidated gross margin was 47% in Q3 2014 compared to 48% in Q3 of last year. On a non-GAAP basis, consolidated gross margin increased to 57% versus 55% last year. Total operating expenses were 27.4 million in Q3, a 51% increase from Q3 2013 levels of 18.2 million. Sales and marketing expenditures rose 41%. R&D spending was up 108%.

Please note that we will amend previous filings to reflect the immaterial restatement of general and administrative expenses, in order to correct errors in a calculation and assessment of pass-through state sales tax for certain of our products and services. In the process of implementing a new billing system, we discovered that the tax tables were not being properly updated for changes in state sales tax laws in our current system. The cumulative effect for 2011 through the first half of this year is 2.9 million, as reflected in the September 30th balance sheet.

For the third quarter, G&A spending was 35% above the levels in the corresponding period a year ago. GAAP net loss for the quarter of 6.7 million increased compared to the GAAP net loss of 2.8 million in last year's third quarter. The increase is principally attributable to increased non-cash amortization and stock-based compensation charges of 3.2 million, principally related to the Uptivity acquisition.

Adjusted EBITDA, a non-GAAP measure, is an important metric of our operating results, due to the significant amount of depreciation and amortization resulting from the acquisitions of software, customer bases and network technology, as well as the amortization of capitalized software development costs and stock-based comp. Adjusted EBITDA excluding purchase price adjustments was 2.3 million for the quarter. Adjusted EBITDA, including the adjustments was 993,000 for Q3 2014 compared to 1.6 million in 2013, making it the 11th consecutive quarter with positive Adjusted EBITDA. As of September 30th, we had $31 million in cash and cash equivalents, and access to an additional 10 million under our line of credit and term note facility.

Now let me turn to our outlook for the balance of this year. We expect the strong momentum established in the first nine months to carry over into our efforts for the rest of 2014. Excluding the impact of purchase price adjustments on Uptivity's contribution, we are increasing by $2 million the previously established 90 to 92 million non-GAAP recurring Software revenue guidance to 92 to 94 million for the full year. Similarly, the range for total non-GAAP Software revenues has also increased 2 million and is expected to be between 101 to 103 million for all of 2014. We anticipate a $3 million uptick to the previously consolidated non-GAAP revenue guidance for the full year coming in between 171 and 174 million. Finally, we are raising the guidance range for full year 2014 non-GAAP Adjusted EBITDA by 1 million, from a range of 6 to 7 million, up to a range of 7 to 8 million.

In summary, we're pleased with inContact's results for Q3 of 2014, and look forward to sustaining this momentum into the fourth quarter and beyond.

Operator, we're now ready for questions.

Operator: At this time, if you would like to ask a question, please press star and one on your touchtone telephone. You may withdraw your question at any time by pressing the pound key. Once again, to ask a question, please press star and one on your touchtone phone.

We'll take our first question from Brian Schwartz of Oppenheimer. Please go ahead.

Brian Schwartz: Yes, hi. Thanks for taking my questions this afternoon, and congratulations on a terrific quarter.

Paul Jarman: Thank you. How are you doing Brian?

Brian Schwartz: I'm doing really well, Paul. I got a few questions for you and Greg. I thought we'd start right there on the record bookings and the strong deal activity. It's been really impressive here Paul now for two quarters in a row. Is it possible to expand on that a little bit and what I'm curious about is to what degree—are we taking the same size customer and we're selling them a lot more product, because you've expanded your product fleet versus moving up-market and selling to larger customers. Then along those lines, Paul, I'm curious to your opinion, and if you're seeing any larger contact centers starting to think about migrating their entire contact center infrastructure and go all cloud from the start or if it's mostly starting in pieces and then expanding from that?

Paul Jarman: All right. Let me Brian, you've got about four questions, so let me crank those out. So first of all, I would say that the increase in bookings is really a combination of each of those things you mentioned. So we are seeing more consistently every quarter winning larger deals. We're also seeing more consistently every quarter that we're up-selling more and more to the current customers, and that's coming both from adding new divisions as the example I gave on the Fortune 500 that added 800 seats, to also they're adding new products, and so we're seeing really both there. We're also seeing, yes, that some customers are starting faster. We recently had a customer that turned up over a thousand seats in their first part of the turn up, which in years past would have never happened. They would have started with a hundred. They would have went to 300 and they would have went to 500. So we are also seeing that the customers are more willing to just start with more right upfront.

Brian Schwartz: Then Paul, how about product demands; you just had a record attendance here at the Customer Conference and you had a lot of new products that you've introduced into the market here over the last two years. How would you rank them either in terms of growth rates or pipeline momentum that you're seeing right now?

Paul Jarman: So, a couple of answers to that Brian. So first of all, there's two parts to it; having a wider product set helps us to win more deals because it eliminates reasons that they might not go with us because they needed something we don't have. So that's probably number one. Number two, from a cross-sell, up-sell standpoint or from an interest standpoint, typically when they come in the first time they're buying the core contact center platform which includes the self-service and the multi-channel or tools to get to the agents with basically the interaction engine. We're seeing a nice uptick with personal (ph) connection relating to outbound services. We're seeing nice uptick in interest around all of the products in workforce optimization, from the recording, the QM, the workforce management, analytics, and so we're seeing a nice chunk of that coming in as well.

So, basically I'd say the core platform, then dialing and workforce optimization kind of coming in together. Then after that it would be other smaller pieces to the platform that they add to it.

Brian Schwartz: Thank you, and then if I could switch over to Greg, one, if you could give us some more color here on the record retention. This is the first time here but I guess it looks like in my metrics that we're above 93%, certainly an uptick here after nine quarters. What happened there with the business that improved the retention in the quarter?

Gregory Ayers: Yes, Brian, I don't think that there is anything particular that we did in this quarter specifically, but it's more cumulative with regard to making the appropriate investments in customer service, technical support, business consulting services, et cetera. So the more that we can partner with our customers and help them achieve their KPIs as well as provide up-time reliability, et cetera, it's just going to drive that metric up over time.

Brian Schwartz: Okay.

Paul Jarman: I would just add to that Brian, that as we continue to expand the platform, it gives them less reason to have a product we can't help them with.

Brian Schwartz: Thank you. Then two last questions from me here just looking beyond the quarter results here. I don't know if this is Greg or for Paul, but I just—I look at your direct sales rep count and it looks to me like you've nearly doubled it here in two years. So as we think about 2015, should we expect a similar increase and along those lines, when should we start thinking about the productivity benefits to come in from these prior investments?

Paul Jarman: I'll start with that and then Greg can answer as well. But I would say first of all part of that uptick is also through the acquisition of Uptivity. We have expanded that direct sales team as well. So I would say, we will keep expanding the quota-bearing team, but we're really expanding this in a very holistic way in which is the first step is the right marketing and then the right partner recruitment, which is creating opportunities and interest. Then we're adding simultaneously to a mid-market team and an enterprise team that are helping guide those people through the process. Then lastly we'll keep adding to some people that are mining the customer base and looking for the cross-sell, up-sell. So you'll see some increase in those numbers through the next year. It won't obviously be double the 64 you have today but we will add kind of systematically across the whole process because we find that's the best way of creating the most synergy in the whole thing.

I would also say that we see nice gains in our sales people that have been here over six months. So we're happy that we can get to a productivity level once they get through that initial period that works for us.

Brian Schwartz: Great, and last question from me and I'm going to hop back in the queue, is, Paul, just want to ask your opinion on the intermediate term, the growth rate here on the software business. Just from a high-level, because I think last quarter at a high-level you seemed pretty confident in sustaining a 25% or better organic growth rate over the intermediate term. But that was before the growth rate around your new business activity had stepped up here in the third quarter and it's been two quarters in a row here of a step up in that activity. You look at the growth rate, the 3Q bookings growth rate is up almost 40% compared to the first half for the year and your comps aren't easy. So how do you—how would you characterize the stability of the demand environment here over the intermediate term and is your confidence level in that 25% plus software business growth rate still the same? Thanks for taking all the questions today.

Paul Jarman: Yes, so Brian, I'd say the first thing, we mentioned a couple of quarters ago was we felt we could grow the organic software business without the Unify contribution above 30%, which as Greg mentioned we did this quarter at 39. So we see nice visibility in the fourth quarter's bookings. We're not actually giving formal guidance to 2015 until the fourth quarter call. But I would say this, I would say that we see positive and strong indicators in the enterprise and the mid-market and cross-sell, up-sell and we like the productivity and the training I think that are happening in the sales teams. So we feel good about a very positive '15. We feel good about what we've said which was we can grow that organic business over 30% and I'll leave it to more details as we come into the fourth quarter call.

Operator: We'll take our next question from Jeff Van Rhee of Craig-Hallum. Please go ahead.

Jeff Van Rhee: Great, thanks. I'll add my congratulations to a great quarter here. Just a few questions for you. I guess, Paul, one, you gave us pointers (ph) about the partners along the lines of the implementation; clearly it's gotten new momentum in terms of turning up these deals and have ironed out a lot of the kinks here it looks like. What was—what are the comparable periods in terms of what partners did, say, what percent of implementations were done by partners a year ago?

Paul Jarman: I would basically just say this; third quarter of last year was basically like zero. I mean, it might have been one or two deals. So we've been able to get to really a third and as far as partner implementations over the last 12 months, and those partners are mostly doing our medium to small size implementations and we're traditionally focused on the enterprise ones. But it's been a nice movement for us and a nice lever for us to do that.

Jeff Van Rhee: Do you expect that to go materially higher or at what point time does that stabilize?

Paul Jarman: I think that you're going to—it will range somewhere between probably 33 and 50%, in that range, because there's enough of these deals that we'll do ourself and there's a lot of them that we'll have great partners to help us with. So, at least for the next several quarters that range is fair.

Jeff Van Rhee: Okay, and then when you closed the Uptivity, I think you had raised your guidance to Uptivity having an incremental 14 million for the year. Is that number still a relevant number? Are we on track for that, below or above it?

Paul Jarman: Yes, so as we gave you each of those numbers at the first of the year and we upgraded them when we talked about Uptivity, everything still on track. As Greg mentioned, the recurring Software number, we've upped guidance; the total Software number, we've upped guidance; the total Software and Telecom number, we've upped guidance; and also the EBITDA. So really across both the core business and the Uptivity business, based on what we've projected, we're right there.

Jeff Van Rhee: Okay, and then two last ones from me. Channel was what percent of revenue?

Gregory Ayers: About 40%.

Paul Jarman: You mean Revenue or bookings?

Gregory Ayers: Bookings.

Jeff Van Rhee: I'm sorry, bookings, yes. Then last one Greg, just to touch back on the restatement to prior periods, I guess two questions related to that. One, how we should think about the timing around the filing of the Q, and two, I think you mentioned 2.9 million; I missed exactly what that was. Were you saying that was—that would be the tax through the first six months that should have been shown in the P&L? I missed that part, if you could just hit that.

Gregory Ayers: Yes, Jeff. So in the course of implementing our new billing software package, we discovered that the current system's tax tables were not accurately reflecting the state sales tax rates. So the 2.9 million cumulative restatement is meant to correct our historical P&Ls from the beginning of 2011 through this year's June quarter. So that's a total of 14 quarters. The effect of the restatement will be higher G&A expenses in those periods. Keep in mind that typically assessment collection and remittance of sales tax has no effect on results of operations or corporate cash flow. So I should mention that the amount accrued represents the maximum exposure for this item.

Jeff Van Rhee: Mm-hmm. Okay, and then—and your sense of timing on the Q or the restatement (cross talking)?

Gregory Ayers: Yes, we'll get those filed in the next couple of days.

Jeff Van Rhee: (Inaudible). Okay, great. Thanks. Congrats again, real nice quarter.

Gregory Ayers: Thank you.

Paul Jarman: Thanks Jeff.

Operator: We'll take our next question from Mike Latimore of Northland Capital Markets. Please go ahead.

Michael Latimore: Yes, great quarter as well. On the usage side, that was strong right in the quarter. I guess, can you give a little bit of the gives and takes you're seeing in usage and I assume you expect it to be relatively healthy in the fourth quarter again?

Paul Jarman: Yes, so in the fourth quarter, it's often—it's our best quarter for same-store sales (ph) increase and really we saw progress in all areas, Mike. We saw in new customers turning into revenue. We saw it in retention. We saw it in the same-store sales comparison from the second quarter. So I think all three contributed to the increased usage and yes, fourth quarter is always our best quarter as it relates to same-store sales.

Michael Latimore: What are—are there certain industry verticals and I recall one year where I think it was the e-commerce vertical was particularly strong or is it just kind of across the board, I'm particularly talking about same-store sales?

Paul Jarman: First of all, I would say anybody that is relative to the holiday shopping season, first of all, is going to expand—I think you're going to see—there is some other industries that will likewise have that strength, but I think a lot of it's driven by the verticals or companies that do a lot of business over the holiday season.

Michael Latimore: Got you and the 41% bookings growth, just to be 100% clear, that's your traditional metric, that doesn't include anything from Uptivity, is that right?

Paul Jarman: It does not include any premise bookings, which is completely on its own, and probably less than 1% or 1.5% would be Uptivity recurring cloud revenues subscription.

Michael Latimore: Okay, got it. Then how has the receptivity been for inContact core cloud service via the Uptivity channel. Maybe you can provide a little more color around kind of initiatives around the Uptivity channel and selling inContact spots?

Paul Jarman: You bet. So I can think of two key customers that we are already providing solutions to and work with that would be moving from just the Uptivity solutions to Uptivity plus inContact. So we have processes that are going right now and we've got one or two of our—kind of our first steps or wins there.

As we mentioned in the second quarter call, there was very little overlap between the inContact and Uptivity customer bases and so, maybe a 5% at best overlap. So we see a lot of opportunity there. We're seeing some early wins and we'll keep progressing that.

Michael Latimore: Then lastly, I mean, you historically talked about the focus being contact centers with 50 to 500 seats. You've often times gotten numbers above that, but is that still going to be the focus range or why (inaudible)?

Paul Jarman: Well, I guess Mike, it's where you hunt every day and there's also what you win. So in general, our sales teams, that's our best sweet (ph) spot and we hunt in there most of the time. But yes, we are now quarter-over-quarter always wining deals bigger than 500. So I think you'll see a small kind of uptick quarter-over-quarter with larger deals. But we'll not over-emphasize there because that's starts to get choppy if you're not careful.

Michael Latimore: Yes, okay. Great, very good results, excellent.

Paul Jarman: Yes. Thank you, Mike.

Operator: We'll take our next question from Mark Schappel of Benchmark. Please go ahead.

Mark Schappel: Hi, good evening and nice job on the quarter as well. Most of my questions have been answered but just a couple here. Paul, talk a little about your telco business, I mean that was up pretty good this quarter. Was there anything one-time there or is this something we can expect to continue?

Paul Jarman: I don't think there is really any one-time items in there, Mark. I think there's a couple of factors that are helping. First of all, the legacy telcom part and Greg, check me here, is like less than 10% now.

Gregory Ayers: Fourteen.

Paul Jarman: Fourteen percent of telco revenue, so that's dragging less and less as the associated telcom grows. So I would say that's starting to help, one. Two is, I think what was great also, as you noticed, that we can take that margin up one more point to 37. But I think that what really is happening is we keep seeing customers have a strong preference to combine the two solutions together. So when it's not sold by our carrier partners, it's most of the time now being sold together.

Mark Schappel: Okay, great, and then Paul in your prepared remarks, you noted some new functionality coming out in the upcoming release. Just wondering if you could just review that for me real quick one more time. I didn't catch it the first time around.

Paul Jarman: Yes, so we talked about additional innovations in personal connections, that's the outbound proactive dialing solution that eliminates the pause when you're taking the call at your home and you usually hear the two or three second pause which you hang up with. So that product, we've seen nice success and we're adding a lot of additional features to it. Secondly, we're adding more reporting and analytics across the platform. Third, we talked about this intelligent contact center which is really a more seamless and intelligent connection between our workforce optimization and our core routing platform, how those two work together. Then there's really just a chunk of smaller things that people are looking for across the platform that we've added as well. So a couple of big pieces and then a lot of smaller pieces.

Mark Schappel: Okay. Thank you very much.

Operator: We'll take our last question from Katherine Egbert of Piper Jaffray. Please go ahead.

Katherine Egbert: Hi, good afternoon, thanks. I think what's interesting about this quarter is not that you just reached record metrics, but you're actually seeing acceleration in many of those metrics like same-store sales and retention rate and given that much of your revenue now is recurring and that you're going into the seasonally strongest quarter of the year, is it safe to say that you kind of have a new set level for 2015, meaning that this acceleration can continue?

Paul Jarman: Well, great question. So two answers to that. First of all, a strong Q4 is the most important thing for a good '15, because it establishes a good reoccurring start rate for the year, and it really helps as you go through '15 to already have a strong delta exiting '14. So that alone is a real help to us to have this nice upswing through the third and fourth quarters of '14. Secondly, we haven't given any formal guidance around the revenue or the bookings, but I just would say that we feel very confident that we'll have a great bookings quarter in Q4 and that with the strength in the fourth quarter as far as seasonality and a lot of the strength of really a record implementation quarter, that should support a nice quarter. So, I don't want to say today that we're going to keep at these metrics forever, but I just want to say it was a very solid quarter, a very good indicator of where we're going in '15 and we're excited for what it could mean for us.

Katherine Egbert: Okay, great. Thank you. Just one quick follow-up. You had a competitor report just a couple of weeks ago, a strong quarter as well. I mean, is this a rising tide, would you say—is there some sense in the customer base that cloud-based solutions are—is ready and here now?

Paul Jarman: So I think that—I guess a couple of things I would say to that. First of all, what will benefit is that the cloud is certainly becoming more and more important in the contact center industry, and our space is maybe a year or two later than some of the others because it's more mission critical and it's harder to do. Where we're excited is that we feel we're really prepared for that uptick because we've already built a multi-tenant solution, we've already spent ten years getting the kinks out of it and we've already won literally numerous Fortune 500 customers. So we are ready to take that expansion. So I do think the tide is rising and I think that we're more capable than most to take advantage of it and our job is to just execute well through it.

Katherine Egbert: You did a good job this quarter. Congratulations.

Paul Jarman: Well, thank you.

Operator: There are no further questions in queue at this time.

Paul Jarman: We'd like to thank everybody that's attended the third quarter call. We appreciate your interest and have a great day.

Operator: This concludes your teleconference. Thank you for your participation. You may now disconnect.